

Report to  
President William Jefferson Clinton  
of the Interagency Enforcement Team  
Regarding the  
U.S.-Japan Agreement on Autos and Auto Parts

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U.S. Department of Commerce  
and  
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## **EXECUTIVE SUMMARY**

During the past year, the global automotive industry entered a period of broad restructuring while Japan's recession continued unabated. While many automotive companies continued to struggle with the effects of the recession in Japan, others began to actively restructure their operations, including closing plants, cutting production, laying off employees, merging, forging cross border ties, and initiating other new business strategies. The impact of these changes on the Japanese automotive market undoubtedly will be significant. To facilitate this industrial restructuring and to ensure that it serves to enhance competition in the automotive market in Japan, the Administration believes that improving market access must be a priority for Japan. Indeed, President Clinton highlighted the importance of fully implementing our bilateral trade agreements, including the Automotive Agreement, during his May 3, 1999 meeting with Prime Minister Obuchi. Only by fully opening and deregulating its auto and auto parts sector will Japan foster the creation of a truly competitive automotive market, generating further progress under the Automotive Agreement and helping to spur Japanese economic growth.

In an effort to stabilize the economy and stimulate growth, the Japanese Government has enacted a variety of macroeconomic measures and financial sector reforms during this reporting period. If fully implemented, these steps will help to boost domestic demand, including in the automotive sector. At the same time, however, the Japanese Government has remained reluctant to take further steps to actively deregulate and fully open the economy and, specifically, the automotive sector. Rather than creating the pro-competitive regulatory environment that would help promote further automotive industry restructuring and increase this sector's efficiency and competitiveness, current Japanese Government policies serve to hold back needed changes and preserve the status quo.

These Japanese Government policies and the protracted recession have had a negative effect on auto parts companies, including foreign companies. Hard hit by the decline in Japanese auto production, which fell to a 20-year low in JFY 1998, U.S. auto parts exports to Japan fell 7.4 percent in 1998 compared with 1997, the first decline since the Agreement was signed in 1995. The decline bears out U.S. industry concerns about the growing difficulty of signing new contracts for sales of original equipment auto parts in Japan. Moreover, the continued fall off in new orders suggests that this decline is likely to continue.

The decrease in U.S. auto parts exports to Japan also reflects the slow pace of deregulation in the auto parts aftermarket, despite the continued deregulation that is called for in the Automotive Agreement. Following the signing of the Automotive Agreement, the Japanese Government took a number of positive steps to deregulate its auto parts aftermarket. However, the Ministry of Transport (MOT) needs to take additional action to deregulate areas affecting aftermarket sales and operations in order to spur further actions by industry to restructure this sector, introduce more vigorous competition into the auto parts aftermarket, and achieve additional progress under the Agreement.

Japan's recession, limited market access, and the weak competitive environment also have hurt foreign vehicle manufacturers. Sales of DaimlerChrysler, Ford, and General Motors North American-produced motor vehicles in Japan fell 35 percent in 1998 over the previous year and declined 29 percent during the first quarter of 1999 over the same period in 1998.

In addition, the recession has inhibited business investment, compounding the difficulties foreign vehicle manufacturers face in adding new dealerships. In an effort to contend with these economic conditions and position themselves to better compete in the future, U.S. auto companies have consolidated or closed less-profitable dealerships over the past year. This restructuring may help companies weather the continued economic dislocations and position them for growth thereafter. However, the continued reluctance of some Japanese dealers to carry foreign vehicles for fear of damaging their long-term relationships with Japanese manufacturers will constrain the ability of U.S. companies to expand their dealership networks. While efforts by Japan's Ministry of International Trade and Industry over the past year to ensure that dealers understand that they are free to carry the products of competing manufacturers have helped improve the competitive environment somewhat, further proactive actions by the Japanese Government and Japanese automakers are needed to ensure that restrictive business practices in this sector are fully eliminated.

Senior-level Administration officials have raised their serious concerns over these trends in recent meetings with their Japanese counterparts. They also have strongly urged Japan to implement the 11 new concrete proposals that the U.S. Government presented to Japan, which include measures to increase competition in the auto parts market and strengthen dealerships. The U.S. Government has proposed that Japan deregulate and enhance the transparency of regulatory and administrative procedures involving vehicle inspection and repair, which would allow independent garages to compete for this high-profit business. Similarly, the MOT should remove additional items from the disassembly repair regulations (or so-called "critical parts list") in order to enhance competition in this sector and lower costs. (The disassembly repair regulations require that repair work on seven major component systems of an automobile -- *e.g.*, transmissions and brakes -- be performed at dealerships or other MOT-certified garages. These garages tend almost exclusively to use Japanese auto parts because they are owned or closely affiliated with Japanese automakers.) We urge Japan to implement these proposals expeditiously and will continue to consult closely with the Japanese Government on these issues in the weeks and months ahead.

Although we are disappointed with the overall Japanese Government actions to open and deregulate its automotive market, Japan has responded positively to some of the U.S. proposals. Last year, the U.S. Government requested that Japan help strengthen auto dealerships by streamlining new car registration procedures. Completing current registration requirements for new motor vehicles can consume almost one-quarter of the time of employees working in car dealerships, decreasing productivity, and adding to the difficulties of running a profitable dealership. Japan has agreed to streamline this process, including through the creation of a "one-stop" shop for completing the required registration procedures. We welcome this step and urge

Japan to ensure that this “one-stop” shop is given the clear authority to handle all aspects of the multi-step registration process.

The Japanese Government also has agreed to create a new class of certified mechanics, as requested by the U.S. Government and industry. The United States sought this change to enhance the competitiveness and spur the development of the specialized certified garages -- a new category of garages established under the Agreement that has created opportunities for foreign auto parts suppliers by permitting smaller, independent garages to undertake repairs previously limited to dealerships and other fully designated or certified garages. The new class of mechanics will be trained, tested, and certified to work on all vehicle systems except engines. This will allow certified garages that do not perform repairs on engines to hire mechanics whose training corresponds to their needs and pay them accordingly. While we believe that this one new category is appropriate given the current state of development of this market, we urge the Ministry of Transport to continue to reassess the need for further sub-categories of mechanics as the market evolves.

Meanwhile, the Japanese automakers have continued to make major investments in new production facilities in the United States. This investment led to a 21-percent increase in purchases by Japanese transplants of U.S. auto parts during the first half of JFY 98 (the most recent available data), although auto parts imports from Japan also rose in 1998, the first increase since 1995. The major Japanese automakers recently provided reports on the status of their global business plans and reiterated their strong commitment to the U.S. market. The United States welcomes this continuing investment, which has created tens of thousands of new jobs for U.S. workers.

The United States is closely following developments regarding Japan’s new fuel economy regulations, which became effective on April 1, 1999. The U.S. Government fully recognizes the important environmental concerns that underlie these regulations. At the same time, we will continue to monitor this issue to ensure that the rulemaking process is fully transparent and that foreign vehicle manufacturers receive treatment no less favorable than that offered to domestic manufacturers.

The United States welcomes Japan’s intention to sign the Agreement on Global Technical Regulations. This agreement, which we expect both Japan and the EU to sign this year, will establish a process for developing truly global automotive safety and environment standards and regulations. We urge the Japanese Government to sign the Agreement as soon as possible so that the agreement may enter into force this September as scheduled.

The remainder of this report provides a detailed analysis of the 17 objective criteria included in the Agreement. These objective criteria were intended to allow the two governments to assess progress made in three areas -- motor vehicles, original equipment parts, and deregulation of the auto parts aftermarket -- which are the focus of the Agreement. The U.S. Government will continue to scrutinize Japanese Government implementation of this Agreement. We also will

continue to strongly urge Japan to take concrete measures to ensure that the Agreement's objectives to eliminate market access barriers and to expand sales opportunities in the automotive sector are fully achieved.

## INTRODUCTION

The U.S. automotive vehicle and parts industry remains one of the most productive and competitive sectors of the economy. In recent years the industry has experienced strong sales, growing employment and record profits. Reflecting gains in both quality and productivity, export growth has been strong, increasing by 52 percent, from \$46.8 billion in 1992 to \$71.3 billion in 1998. During this same period, direct employment in both sectors increased by 17 percent, from 978,000 jobs in 1992 to nearly 1.2 million jobs in 1998.

The impressive resurgence of the automotive industry is attributable to a variety of factors. The industry has made significant investments in new plant and equipment, has restructured the relationship between parts suppliers and vehicle manufacturers, and has developed higher quality, more technologically advanced, and more globally-competitive vehicles and components. These accomplishments have been fostered by a sound economic environment, with low inflation and interest rates, rising employment, and increasing household and business income.

The Clinton Administration has undertaken a number of specific initiatives to facilitate the current health and future expansion of the industry at home and its access to markets abroad. These efforts include the Partnership for a New Generation of Vehicles, an historic partnership between government and industry established to develop technologies for the next generation of affordable, fuel efficient and environmentally sound vehicles.

The Administration also has launched, sustained, or concluded numerous trade policy and promotion initiatives to tap the potential for competitive automotive exports by eliminating barriers and opening markets around the globe. The Administration successfully sought inclusion of major market-opening provisions in the NAFTA and GATT/WTO agreements, and has strictly monitored our automotive trade agreements. In particular, as part of the U.S. Government's strategic enforcement strategy for automotive trade, the Administration is closely monitoring our trade agreements with Japan and Korea, as well as China's automotive industrial policy and the consistency of India's auto policies with the WTO agreement on trade-related investment measures (TRIMs).

In July, 1999, the Administration will spearhead the launch of a forward-looking and innovative approach to automotive trade in the Asia-Pacific region: the APEC Automotive Dialogue. Developed as part of the APEC Early Voluntary Sectoral Liberalization initiative, the Automotive Dialogue will bring together for the first time both private sector and government automotive experts from all the major auto-producing economies of the Asia-Pacific region in one forum to discuss the current status of the auto sector in the region, identify existing barriers to growth, and decide on a collaborative basis how to address them.

The Administration is also continuing efforts to develop globally harmonized automotive regulations, in order to reduce barriers to trade and to improve global vehicle safety and environmental protection. Such discussions are occurring bilaterally and multilaterally in several



fora, including the United Nations Economic Commission for Europe Working Party 29 (UN/ECE WP 29), the NAFTA Standards Council, the Asia Pacific Economic Cooperation (APEC) Transportation Working Group, the Transatlantic Business Dialogue (TABD), and the Transatlantic Economic Partnership (TEP). On June 25, 1998, the United States became the first signatory to the new UN/ECE Agreement on Global Technical Regulations for wheeled vehicles, that the U.S. spearheaded and, which establishes an official process which could lead to the development of truly global automotive regulations.

A key element of U.S. trade policy has been to open the large Japanese automotive market. For over three decades U.S. manufacturers have not had full access to this market because of Japan's exclusionary vehicle distribution system and parts purchasing practices. These practices have been compounded by government regulations dealing with vehicle certification, inspection, and repair. The Clinton Administration sought to address these problems comprehensively through negotiations conducted under the auspices of the U.S.-Japan Framework for a New Economic Partnership agreed to in July 1993.

Following nearly two years of negotiations, the United States and Japan reached an historic and far reaching agreement covering all aspects of US-Japan automotive trade -- vehicles, auto parts, and Japanese Government regulation. The Agreement was formally signed on August 23, 1995. In order to ensure effective follow-up and evaluation of progress, the Agreement included 17 quantitative and qualitative objective criteria.

The United States achieved inclusion of its key objectives in the Agreement, including commitments by the Government of Japan to improve access for foreign vehicle manufacturers, expand opportunities for U.S. original equipment parts manufacturers in Japan and the United States, and eliminate regulations that restrict access for U.S. automotive parts suppliers to the Japanese repair market. In conjunction with the conclusion of the Agreement, the five major Japanese auto manufacturers also announced plans to increase purchases of foreign auto parts in Japan and to expand production of vehicles and major components in the United States. Following conclusion of the Agreement, the United States and Japan made a Joint Government Announcement and the United States announced its expectations of results involving dealerships, exports and the growth of parts purchases by the transplants.

On September 6, 1995, then-U.S. Trade Representative Kantor and then-Commerce Secretary Brown launched a comprehensive program to monitor implementation and assess progress achieved under the Agreement. The Interagency Enforcement Group, which was established to undertake this task, has since vigorously monitored compliance with the Agreement. Enforcement Group members have also met periodically with the Japanese automakers to review implementation of their voluntary business plans. The Group's first semiannual report was issued by President Clinton on April 12, 1996.

The Interagency Enforcement Group is co-chaired by the Department of Commerce and the Office of the U.S. Trade Representative. The Group has met frequently with representatives of

the U.S. automotive industry, labor and trade associations in compiling this report. Information and statistics used in the report were gathered from official U.S. Government sources including the Commerce Department's Census Bureau, Bureau of Economic Analysis, Office of Automotive Affairs, Office of Japan Trade Policy, and Foreign Trade Zone Board, as well as the Customs Bureau, the Environmental Protection Agency, the Department of State, the Department of Transportation and the U.S. Embassy in Japan. Additional information was obtained from the Government of Japan, U.S. and Japanese automotive trade associations and from individual U.S. and Japanese companies.

This is the sixth report prepared by the Enforcement Team. It evaluates progress made since the Agreement was reached, with a focus on developments since the last report was released on August 12, 1998. The interagency group will continue to monitor compliance with the Agreement and to release progress reports semi-annually.

## MOTOR VEHICLES

The Agreement includes three qualitative criteria and two quantitative criteria pertaining to market access for motor vehicles:

### Qualitative Criteria

1. **Efforts by the Japanese vehicle manufacturers to promote open and competitive distribution systems for motor vehicles in Japan.**

Japanese automakers have informed dealers of their right to sell products of competing manufacturers. In addition, U.S. and Japanese automakers have taken cooperative actions that have helped integrate U.S. producers into the Japanese market. Since the beginning of the Agreement several such actions have been taken, including:

- In April 1996, Ford raised its investment in Mazda from 25 percent to a controlling 33.4 percent. The companies have stated that their closer world-wide coordination and cooperative strategies and plans, particularly in the areas of product development and manufacturing, will enable them to improve competitiveness and achieve improved economies of scale. Mazda has retained its separate identity in both the United States and in Japan.
- Ford has been operating a Product Distribution and Inspection Facility in cooperation with Nissan since January 1996.
- The Toyota Cavalier went on sale in Japan in January 1996. Toyota's Cavalier is a U.S.-built, right-hand drive version of the Chevrolet car of the same name. The Cavalier is being sold at Toyota dealerships throughout Japan under the terms of a GM-Toyota agreement reached in November 1993.
- Chrysler Corporation had maintained a Jeep sub-distribution agreement with Honda, which was terminated in late 1997 in a step intended to benefit Chrysler's efforts to recruit new dealers. With the ending of the agreement, Honda pledged to do nothing to discourage its dealers from also becoming Chrysler dealers. DaimlerChrysler is actively recruiting new dealers.

2. **Efforts of foreign vehicle manufacturers to offer competitive products in Japan under competitive terms and conditions, including with respect to price, variety of products, delivery lead time, and after-sales service.**

DaimlerChrysler, Ford, and General Motors (DCFGM) have moved aggressively in every important aspect of selling vehicles in Japan, including increased product offerings, recruitment of new dealers, and improvement of dealer networks and parts distribution systems. However, these

efforts have been hindered by a number of factors, including the recession. Since this time, domestic demand in Japan has decreased with a corresponding drop in automotive sales.

In Japan, DCFGM currently offer 29 car lines (101 different models), available in right-hand-drive (RHD). These car lines cover a broad segment of the market, from large, luxury cars to compact cars, vans, and trucks. DCFGM have followed through on their plans to offer more RHD cars. Ford sells RHD versions of the Explorer, Taurus and Mondeo, as well as several RHD Ford-badged models made by Mazda in Japan. GM is selling RHD Cadillac Seattles, RHD Saturns, and several RHD models made by its Opel subsidiary in Europe. GM also supplies Toyota with RHD Cavaliers. DaimlerChrysler sells RHD versions of the Chrysler-badged Neon, Cherokee, Grand Cherokee, Voyager minivan, and Jeep Wrangler.

DCFGM have mounted sustained campaigns to attract qualified, high-quality dealers. Some dealers who had no previous business contact with the companies are seeking information about selling their products. Nevertheless, the recession and continued reluctance of Japanese dealers to carry competing foreign brands has impeded progress on actual sign-ups of new dealerships.

Finally, DCFGM are regularly obtaining type approval from the Ministry of Transport (MOT) for the models they sell in Japan, thereby avoiding volume restrictions and individual inspection requirements that are placed on vehicles certified under other MOT procedures. The commitment of resources to obtain type approval is an indication of the companies' long-term commitment to the Japanese market.

### DaimlerChrysler

Chrysler Japan Sales, Ltd. (CJSL), located in Tokyo, handles distribution, sales and marketing of imported Chrysler products in Japan. CJSL operations handle retail sales and service through Chrysler Japan Sales owned and operated dealerships. CJSL operations also include a National Part Depot and Vehicle Prep Center.

In November 1998, Chrysler Corporation merged with Daimler-Benz A.G. to form DaimlerChrysler A.G., a global provider of a range of transportation products and services. In keeping with the corporate strategy of maintaining separate identities for DaimlerChrysler's various brands, CJSL continues to maintain its responsibility for the Chrysler and Jeep® brands in the Japanese market.

In 1998, sales of the Chrysler and Jeep® brands in Japan continued to be hindered by the economic downturn. CJSL sold 8,823 vehicles in Japan, down significantly from CJSL's 1997 sales of 15,366. The decline largely reflects the slow market in Japan and has continued into 1999. Sales of the Chrysler and Jeep brands totaled 1,593 vehicles in the first two months of 1999, down from 2,699 in the same period in 1998.

DaimlerChrysler's main goal in Japan for the Chrysler brands continues to be dealer recruitment,

despite the difficult business environment for dealer candidates. By continuing with the “main dealer” strategy, DaimlerChrysler hopes to set the stage for increased sales of the Chrysler and Jeep® brands in Japan in the future. The number of ?main dealers? has grown to 28 from the 22 reported in last year’s Monitoring Report. In 1998, CJSI added five new main dealers: Fukushima Chrysler; Hakodate Chrysler; Kanagawa Nishi Chrysler; Kumamoto Chrysler; and Hyogo Chrysler. CJSI has added one main dealer so far in 1999, Saitama Nishi Chrysler. Chrysler-brand products are displayed in a total 134 showrooms in Japan including RHD versions of the Neon, Cherokee, Grand Cherokee, Voyager minivan, and Jeep Wrangler.

## Ford

Ford Motor Company has, over the past several years, been working to establish a solid business foundation to significantly increase sales of Ford vehicles in Japan. Ford has added high quality dealers, brought new products into the market at affordable prices, increased consumer awareness of its products and improved the supply and distribution of its parts. More than 80 percent of the Ford imports sold in Japan are RHD products including the Explorer, Mondeo, Galaxy and Ka. The Lincoln Continental and the Mustang are offered with left-hand drive. Including vehicles produced in Japan for Ford by Mazda, 95 percent of all Ford vehicles sold in Japan are RHD products.

Following two years of growth in sales of imported Ford vehicles, as well as the expansion of Ford’s dealership network, Ford import sales in Japan started to decline in 1997 and the dealership network began to contract. Ford sales of Mazda-produced vehicles also decreased in 1997, down 13 percent from 1996. The sales decline continued into 1998, with total sales declining 37 percent -- import sales declined by 49 percent to 7,886 vehicles and Mazda-produced sales declining 28 percent. Sales of U.S.-built Ford vehicles declined 48 percent, from 10,255 units in 1997 to 5,315 units in 1998, and sales of Ford vehicles produced in Europe declined by 51 percent, from 5,106 units in 1997 to 2,518 units in 1998.

Japan’s recession has impaired Ford’s efforts to strengthen its existing dealerships or to sign on new dealers. Since the beginning of 1998, Ford has closed or consolidated selected unprofitable, poorly-performing and poorly-located dealerships. These consolidations and closures are continuing into 1999 as Ford attempts to create a more profitable dealership network. Presently, Ford has a dealership network of 102 dealers operating 238 outlets. Ford’s dealership network includes a Toyota dealer with 8 outlets, 6 Nissan dealers with 12 outlets, and 12 new Mazda dealers with 14 outlets that have been recruited since 1995.

## General Motors

General Motors markets products in Japan under the following brand names: Cadillac, Chevrolet, Opel, Saab, and Saturn. GM’s products, other than Saturn, are distributed primarily through Yanase, Japan’s largest importer of motor vehicles. An independent retail system is being developed for the Saturn brand, with 20 Saturn retail franchises established in Japan to date. GM

also provides Cavaliers for sale through the Toyota distribution channel.

In a very weak market in 1998, GM sold 43,194 passenger cars, down 21 percent from 1997. On the truck side, GM sold 7,787 vehicles, off 53 percent from 1997. Over two-thirds of the products GM sells in Japan are right-hand-drive.

GM's volume of North American-produced vehicles totaled 26,758 units in 1998 (including Cavaliers marketed by Toyota) down 27 percent from 1997. The volume of vehicles produced in Europe for sale in Japan totaled 24,223 units in 1998 down 30 percent from 1997.

### **3. Private sector actions to ensure compliance with the Japanese Antimonopoly Act.**

The Agreement contains a number of specific actions the automakers are required to take, including ensuring company-wide compliance with the Antimonopoly Act and informing affiliated dealers of their right to sell products of competing manufacturers. In accordance with the Agreement, Japan's automakers informed dealers of their right to sell competing products through written notices and by holding briefing sessions.

### **Quantitative Criteria**

#### **4. Change in the number and value of new foreign motor vehicles sold in Japan in total and by country of export, and change in the number of new foreign motor vehicles sold in Japan by manufacturer.**

The 1998 sales of foreign motor vehicles in Japan declined at an even greater rate than the overall market compared with sales in the previous year.

- Total sales of imported motor vehicles in Japan decreased nearly 25 percent during 1998. For the first quarter of 1999, import sales continued to fall 0.4 percent.
- In 1998, total North American-sourced vehicle sales declined by 39 percent and have fallen 8 percent in 1999.
- Sales of DCFGM (North American-sourced) motor vehicles decreased 35 percent in 1998 and continued to decline in the first quarter of 1999 by 29 percent.
- Sales of cars built by the U.S. subsidiaries of Japanese automakers ("reverse imports") decreased 51 percent during 1998. However, first quarter 1999 sales have doubled those of 1998 for the same period.
- Sales by the European automakers decreased 21 percent during 1998 and have continued to fall into 1999.

- The Japanese market as a whole (domestic and imported motor vehicle sales) declined 13 percent in 1998. The market during the first quarter of 1999 is down 0.5 percent from 1998 sales for the same period.

**TABLE 1: New Imported Motor Vehicle Registrations in Japan  
1992 - 1998**

	1992	1993	1994	1995	1996	1997	1998	97/98 % Chg
GM	10,867	13,706	18,655	26,869	43,724	36,838	26,758	(27)
Ford	3,662	5,407	12,398	15,890	16,977	10,255	5,315	(48)
*DaimlerChrysler	2,333	6,010	14,101	15,710	17,404	15,366	8,823	(43)
<b>**Total DCFGM North American Sourced</b>	<b>16,862</b>	<b>25,123</b>	<b>45,154</b>	<b>58,469</b>	<b>78,105</b>	<b>62,459</b>	<b>40,896</b>	<b>(35)</b>
Honda	19,835	26,880	47,296	50,694	47,893	29,968	8,750	(71)
Toyota	2,363	7,955	9,918	32,899	20,152	5,566	4,085	(27)
Mitsubishi	530	248	76	1,014	1,272	672	534	(21)
***Other	267	83	105	156	261	3,561	8,374	135
<b>Total Non- DCFGM North American Sourced</b>	<b>22,995</b>	<b>35,166</b>	<b>57,395</b>	<b>84,763</b>	<b>69,578</b>	<b>39,767</b>	<b>21,743</b>	<b>(45)</b>
<b>Total North American Sourced</b>	<b>39,857</b>	<b>60,289</b>	<b>102,549</b>	<b>143,232</b>	<b>147,683</b>	<b>102,226</b>	<b>62,639</b>	<b>(39)</b>
UK	14,961	17,560	23,219	30,138	30,852	31,952	19,415	(39)
Germany	104,993	98,177	121,388	156,766	184,516	177,509	148,962	(16)
France	7,909	5,840	6,861	9,265	10,502	10,262	10,157	(1)
Italy	4,573	4,565	4,529	5,273	7,059	8,075	8,052	(0.3)
Sweden	10,557	13,141	17,132	21,883	24,947	20,142	13,434	(33)
Others	1,765	1,909	25,713	21,605	21,937	14,707	12,823	(13)
<b>Total Non-US Sourced Imports</b>	<b>144,758</b>	<b>141,192</b>	<b>198,842</b>	<b>244,930</b>	<b>279,813</b>	<b>262,647</b>	<b>213,230</b>	<b>(19)</b>
<b>Total Imports</b>	<b>184,615</b>	<b>201,481</b>	<b>301,391</b>	<b>388,162</b>	<b>427,496</b>	<b>364,873</b>	<b>275,869</b>	<b>(24)</b>
<b>Total Registrations</b>	<b>6,959,073</b>	<b>6,467,279</b>	<b>6,526,696</b>	<b>6,865,034</b>	<b>7,081,218</b>	<b>6,725,026</b>	<b>5,879,425</b>	<b>(13)</b>
<b>Imports/Total Registrations</b>	<b>2.7%</b>	<b>3.1%</b>	<b>4.6%</b>	<b>5.7%</b>	<b>6.0%</b>	<b>5.4%</b>	<b>4.7%</b>	<b>n/a</b>
DCFGM (North American Sourced) Market Share	0.3%	0.4%	0.7%	0.9%	1.1%	0.9%	0.7%	n/a

Source: Data compiled by the Japan Automobile Manufacturers Association from the Japan Automobile Dealers Association and the Japan Automobile Importers Association sources.

\*For consistency with previous reports, the data presented for DaimlerChrysler only represents the Chrysler nameplate portion of the company. The registrations for the Mercedes-Benz sport utility vehicles built in Alabama are reflected in the "other" category.

\*\*DCFGM represents DaimlerChrysler Corporation, Ford Motor Company, and General Motors Corporation.

\*\*\*The "Other" category represents registrations of motor vehicles produced in North America by Nissan, Isuzu, BMW, and Mercedes-Benz.

**TABLE 2: New Imported Motor Vehicle Registrations in Japan  
January - March, 1998 vs. 1999**



	January - March 1998	January - March 1999	% Change
GM	7,461	5,870	(21)
Ford	1,685	897	(47)
*DaimlerChrysler	2,699	1,593	(41)
<b>**Total DCFGM (North American Sourced)</b>	<b>11,845</b>	<b>8,360</b>	<b>(29)</b>
Honda	2,016	6,079	202
Toyota	1,798	533	(70)
Mitsubishi	288	58	(80)
***Other	942	3,226	242
<b>Total Non-DCFGM (North American Sourced)</b>	<b>5,044</b>	<b>9,896</b>	<b>96</b>
<b>Total North American-Sourced</b>	<b>16,889</b>	<b>18,256</b>	<b>8</b>
UK	4,571	4,532	(0.8)
Germany	40,589	41,531	2
France	2,800	2,825	0.8
Italy	2,047	1,999	(2)
Sweden	3,853	3,386	(12)
Others	4,686	2,583	(44)
<b>Total Non-US Sourced Imports</b>	<b>58,546</b>	<b>56,856</b>	<b>(3)</b>
<b>Total Imports</b>	<b>75,435</b>	<b>75,112</b>	<b>(0.4)</b>
<b>Total Registrations</b>	<b>1,688,533</b>	<b>1,679,585</b>	<b>(0.5)</b>
<b>Imports/Total Registrations</b>	<b>4.5%</b>	<b>4.5%</b>	<b>n/a</b>
DCFGM (North American Sourced) Market Share	0.7%	0.5%	n/a

Source: Data compiled by the Japan Automobile Manufacturers Association from the Japan Automobile Dealers Association and the Japan Automobile Importers Association sources.

\*For consistency with previous reports, the data presented for DaimlerChrysler only represents the Chrysler nameplate portion of the company. The registrations for the Mercedes-Benz sport utility vehicles built in Alabama are reflected in the "other" category.

\*\*DCFGM represents DaimlerChrysler Corporation, Ford Motor Company, and General Motors Corporation.

\*\*\*The "Other" category represents registrations of motor vehicles produced in North America by Nissan, Isuzu, BMW, and Mercedes-Benz.

**TABLE 3: Foreign Motor Vehicle Market Shares in Japan**

	1994	1995	1996	1997	1998
DCFGM (North American Sourced)	0.7%	0.9%	1.1%	0.9%	0.7%
Japanese Transplants (Sourced from the U.S.)	0.9%	1.2%	1.0%	0.6%	0.3%
European and Other	3.1%	3.6%	3.9%	3.9%	3.7%
<b>Total Import Market Share</b>	4.6%	5.7%	6.0%	5.4%	4.7%

Source: Data compiled by Japan Automobile Manufacturers Association from the Japan Automobile Dealers Association and the Japan Automobile Importers Association.

A year-to-year comparison of import market shares reveals that total import share in 1998 fell well below the level achieved in 1996. DCFGM (North American-sourced) import penetration in 1998 fell to the 1994 level of 0.7 percent. European share slightly declined in 1998 to 3.7 percent from 3.9 percent in 1997. The steep decline in the shipments to Japan of cars built by the U.S. subsidiaries of the Japanese automakers resulted in their Japanese market share dropping well below 1 percent for the first time since 1994.

**5. Change in the number of direct franchise agreements concluded between foreign vehicle manufacturers and Japanese dealers, and the number of foreign motor vehicles sold through such dealers.**

A key measure of foreign automakers' direct access to existing auto distribution networks in Japan is the number of direct franchise agreements concluded between foreign vehicle manufacturers and Japanese dealers. Auto dealers affiliated with Japanese vehicle manufacturers traditionally have been reluctant to enter into direct franchise agreements with foreign vehicle manufacturers out of concern for damaging relations with their current Japanese supplier, thus limiting foreign vehicle manufacturers' access to these well established existing sales channels. In the United States such concerns have been effectively eliminated through strong antitrust law enforcement and the availability of other laws, which provide dealers with effective remedy against manufacturers who fail to comply with agreements.

DaimlerChrysler, Ford, and General Motors (DCFGM) obtained 193 new outlets in Japan during the first three and a half years of the Agreement. Japan's economic slowdown has further impeded their efforts to sign new dealerships. At present, DCFGM motor vehicles are sold through about 5 percent of the approximately 16,200 sales outlets for motor vehicles throughout Japan. The overwhelming majority of these outlets are dedicated to sales of products produced by a single manufacturer.

To be successful over the long term in a mature, sophisticated market such as Japan, quality must be an overriding consideration in the companies' selection of sales outlets. Over the past year, the companies have consolidated or closed selected dealerships in order to improve the overall quality and profitability of their dealership network.

Since the signing of the Agreement, DaimlerChrysler, Ford, and General Motors have signed franchise agreements with a relatively small number of sales outlets affiliated with the major Japanese automakers. The majority of sales outlets have been obtained through alliances with independent companies, (i.e., auto importers, distributors and retailers not directly affiliated

with any single auto manufacturer.) We believe continued serious efforts by the Japanese Government and by Japan's major automakers to ensure that their auto distributors are aware that they are free to carry competing brands of products without fear of retaliation would improve future results in this aspect of the Agreement. The signing of sales outlets affiliated with the major Japanese automakers will continue to receive close attention from the interagency enforcement team.

## ORIGINAL EQUIPMENT PARTS

The Agreement includes three qualitative and three quantitative criteria specifically pertaining to market access for original equipment parts.

### Qualitative Criteria

6. **Efforts by Japanese vehicle manufacturers in Japan and their transplants to broaden supplier's opportunities through design-in and supplier outreach programs, localization of R&D, and transparency in purchasing practices.**

Efforts by Japanese automakers are documented in the global business plans announced by the five major Japanese vehicle manufacturers on June 28, 1995. These business plans detailed their efforts and actions to expand vehicle production and parts procurement overseas, and provided a comprehensive description of the manufacturers' efforts to expand sales opportunities for new suppliers. Since the plans were issued, individual automakers have made additional specific announcements concerning their global operations.

Recent actions taken by the five major Japanese auto companies are summarized below:

#### Toyota

- Total North American capacity for Toyota vehicles increased to 1.2 million in 1998 and Toyota forecasts it will increase to 1.25 million by 2000.
- Toyota's North American production of vehicles increased from about 740,000 units in 1994 to about one million in 1998.
- Mass production of the new Tundra full size pickup truck began at the Indiana plant in February 1999. Plans call for production of approximately 100,000 trucks per year.
- A new Tundra-based SUV will be produced in the Indiana facility in the Fall of 2000, with planned annual production of 50,000 units.
- In mid-April, Toyota and General Motors announced a five-year research and development alliance to develop alternative-powered vehicles.
- Assembly of Corolla engines (four cylinder) began in November 1998 at the new West Virginia engine plant with a planned annual production level of 300,000 units. Production of about 200,000 V-6 engines will begin in the Summer of 1999. Beginning in the Spring of 2001, Toyota will start producing automatic transmissions at the same plant.
- Exports of U.S.-made Toyotas increased to 36,000 in 1998.

- In April 1996, Toyota established the TACTI Corporation to procure and sell aftermarket auto parts in Japan. By the end of March 1999, TACTI had a total of 28 “jms” aftermarket retail stores operating in Japan, selling various aftermarket auto parts made in Japan, the U.S. and other foreign countries.

### Honda

- On May 6, 1999, Honda announced it will build a new engine plant and motor vehicle plant in Lincoln, Alabama. The new facility will have a capacity of 120,000 V-6 engines and 120,000 vehicles (minivans or sport utilities) by the time it reaches full production in 2003.
- In addition, Honda will spend \$30 million at its Ohio engine plant to increase the facility’s capacity by 110,000 units.
- U.S. production of Honda’s totaled almost 700,000 vehicles for 1998, up about 7 percent over 1997.
- 917,755 engines for automotive use were built in Ohio in 1998, many of which were exported. Honda’s Ohio plant is the exclusive global source for the V-6 engine series that powers the Accord, Odyssey, and Acura CL and TL.
- Honda purchased parts and materials from 434 U.S. suppliers, totaling \$6.8 billion, in 1998. This represented a 7 percent increase over the previous year.
- Previously imported from Japan, Honda began producing the Acura TL in the U.S. in 1998. Almost 32,000 were produced in the Ohio plant in 1998.
- In 1999, Honda will produce the majority of its Low Emission Vehicles (LEV) and Ultra Low Emission Vehicles (ULEV) in the United States.

### Nissan

- Production of a new sport utility vehicle, the Nissan Xterra, began April, 1999. This vehicle was designed at Nissan’s California design facility and many key components were engineered at Nissan’s U.S. R&D facility.
- Nissan consolidated its North American purchasing efforts in March, 1999; combining three separate companies into one, thus increasing internal efficiencies and reducing complexity for its suppliers.
- Nissan continues to be committed to the U.S. market and has invested over \$2 billion in U.S. production plants and related facilities.
- With annual purchases of parts and materials from U.S. suppliers of over \$4.2 billion, Nissan remains committed to localization of procurement and continues to maintain

open purchasing policies.

### Mitsubishi

- Mitsubishi has made capital commitments of approximately \$1.2 billion in Mitsubishi Motor Manufacturing and Mitsubishi Motor Sales in the U.S. since 1996.
- The new 1999 Galant, built in the U.S., was introduced in 1998.
- The all-new Eclipse will be built by Mitsubishi in the U.S. plant and will be introduced in the Fall of 1999.

### Mazda

- Production of vehicles at the AutoAlliance plant in Flat Rock, Michigan (a joint-production facility owned by Ford and Mazda) increased by 66.4 percent, or to 167,393 units, in 1998, compared with 1997.
- Planned production for 1999 is 188,000 units, up 12 percent from 1998.
- Mazda is continuing its cooperative relationship with Ford in product development, manufacturing, mutual product sourcing, and distribution activities.

### **7. Procurement of parts by Japanese vehicle manufacturers and Japanese transplant vehicle manufacturers without discrimination against suppliers based on their capital affiliation.**

During the third annual consultations between the United States and Japan, the Japanese Government reaffirmed its commitment to nondiscrimination with regard to purchases of parts by Japanese vehicle manufacturers.

Shortly after the signing of the Agreement, Japan's Ministry of Transport (MOT) sent notifications to the Japan Federation of Auto Parts Sales Association and to other parts distributors regarding foreign access to the Japanese automotive parts aftermarket. These notifications confirmed that parts distributors should refrain from any form of discrimination between foreign or Japanese-made parts.

In addition, MOT sent notification to the Japan Automobile Services Promotion Association stating that no discrimination should be made at the time of inspections when vehicles are equipped with foreign-made parts.

### **8. Efforts of foreign auto parts suppliers to offer competitive products under competitive terms and conditions, including with respect to price, quality, and delivery lead time.**

U.S. and foreign auto parts suppliers have continued to offer quality products with

competitive prices and service. Examples include:

- Johnson Controls Battery received Toyota's Delivery Performance Award for the sixth consecutive time. Johnson Controls was recognized for its 100 percent on-time-delivery and order fulfillment for the original equipment automotive batteries it supplies to the automaker from its manufacturing plant in Toledo, Ohio. In 1998, Johnson Controls shipped 225,000 batteries to Toyota. The company also received a Certificate of Achievement-Quality Performance from Toyota, which reflects its status as a zero defect supplier. Overall, eight North American parts and materials suppliers won Toyota's Superior Awards, and 21 won Excellent Awards, and many received Certificates of Achievement.
- Demonstrating its continued commitment to the Japanese automotive market, Dana Corporation plans to invest \$3.0 million in a research and development facility in Toyohashi, Japan, which will allow it convenient access to Toyota's facilities.
- In addition, Dana's Spicer Driveshaft Division has increased its sales to Japanese automakers with new business throughout 1998. The Division supplies driveshafts for Nissan's new Frontier (V6 version) light trucks, Toyota's new large pickup truck (4x4 fronts and 4x2 rears) that are produced at the automaker's Indiana facility, and Nissan's new sport utility vehicle starting in the spring of 1999 at the automaker's Tennessee plant.
- In December 1998, the Equipment and Tool Institute and the Japan Automobile Manufacturers Association held its 11th annual "Japanese Technical Week." Six U.S. automotive tool and equipment manufacturers met with Japanese automakers for five days to discuss servicing new 1999 vehicle models.
- To support Visteon's growing sales and service efforts in Japan, Visteon Automotive Systems opened a sales and customer service center in Toyota City, Visteon Asia Pacific-Aichi in July 1998. The office will allow Visteon's employees to have more direct contact with Toyota and other Japanese automotive manufacturers in the region. Visteon also operates a joint venture in Japan, Japan Climate Systems.

## **Quantitative Criteria**

### **9. Change in the value of foreign auto parts (original equipment and original equipment service or aftermarket) exported to and imported into Japan as measured by Japanese and foreign country statistics, and other available data.**

Three primary sources for tracking Japanese purchases of foreign-produced automotive parts are used in this analysis: U.S. Census Bureau export statistics, Japan Automobile Manufacturers Association (JAMA) data on parts purchases by the 11 JAMA members in Japan, and Japanese Ministry of Finance (MOF) import statistics. (See Appendix B for an explanation of JAMA data.)

JAMA, MOF, and Census data are conceptually equivalent. However, due to different reporting methods, time lags, and differences in commodity definitions, the three sets of data differ in value. Even though each set of data differs, all three indicate an upward trend in purchases by Japanese vehicle manufacturers for 1993 to 1997, then a slight decline in 1998.

All three measurements show continued growth in exports of U.S.-made parts to Japan up until 1998. However, the growth largely reflected long-term contracts signed as far back as four years ago. U.S. industry has recently reported that economic conditions in Japan have made the signing of new contracts difficult, and the 1998 data appears to bear this out. If economic problems persist, the trend may well continue downward.

U.S. Census Bureau data (Table 4) show that U.S. automotive parts exports to Japan grew from slightly over \$1 billion in 1992 to \$2.14 billion in 1998. However, U.S. exports of parts to Japan for 1998 were down 7.4 percent when compared with 1997.

**TABLE 4: U.S. Exports of Automotive Parts to Japan**

	1992	1993	1994	1995	1996	1997	1998	Percent Change
U.S. Exports	1.04	1.13	1.49	1.70	2.05	2.31	2.14	-7.4%

Billion US\$, f.o.b.

Source: U.S. Census Bureau

JAMA data (Table 5) reveal that U.S. automotive parts purchases by Japanese automakers for use in Japan grew from \$2.6 billion in Japan fiscal year (JFY) 1993 to \$3.95 billion in JFY97, or by 52 percent. However, after four continuous years of growth, there is a strong likelihood JFY98 will show a drop in purchases. For the first six months of JFY98, Original Equipment (OE) purchases for use in Japan are down 9.4 percent, and Original Equipment Service (OES) purchases were down 12.5 percent compared with the same period in JFY97.

**TABLE 5: Japanese Automakers Purchases of U.S. Parts Exported to Japan**

	JFY93	JFY94	JFY95	JFY96	JFY97	APR-SEPT JFY97	APR-SEPT JFY98	97-98 % Change
<b>Total</b>	2.60	3.23	3.38	3.69	3.95	1.87	1.71	-8.6%
-OE	N/A	N/A	3.26	3.53	3.77	1.80	1.63	-9.4%
-OES	N/A	N/A	0.12	0.16	0.18	0.08	0.07	-12.5%

Billion US\$

Source: Japan Automobile Manufacturers Association

Japanese MOF data (Table 6) show that Japanese imports of automotive parts from the world rose from \$2.82 billion in 1993 to \$4.72 billion in 1997, or an increase of almost 67 percent. However, world parts imports decreased 8.8 percent during 1998, dropping from \$4.7 billion in 1997 to \$4.3 billion in 1998. As can be seen from the following table, imports of parts declined from every major country except China during 1998.



**TABLE 6: Japanese Imports of Automotive Parts from Selected Countries**

	1993	1994	1995	1996	1997	1998	% Change 97/98
<b>WORLD</b>	<b>2,822.0</b>	<b>3,191.0</b>	<b>3,884.8</b>	<b>4,256.4</b>	<b>4,719.7</b>	<b>4,303.5</b>	<b>(8.8)</b>
<b>North America</b>	<b>1,168.3</b>	<b>1,406.5</b>	<b>1,538.8</b>	<b>1,606.5</b>	<b>1,813.5</b>	<b>1,744.5</b>	<b>(3.8)</b>
-- U.S.	1,107.2	1,339.0	1,493.2	1,530.7	1,711.7	1,649.5	(3.6)
-- Canada	51.5	58.0	38.1	60.8	80.0	74.5	(6.9)
-- Mexico	7.6	8.7	6.9	15.0	21.8	20.5	(6.0)
<b>Select EU (1)</b>	<b>621.9</b>	<b>654.1</b>	<b>817.0</b>	<b>902.6</b>	<b>898.5</b>	<b>766.3</b>	<b>(14.7)</b>
-- Germany	323.5	341.4	425.4	470.5	439.7	348.5	(20.7)
-- U.K.	71.0	79.5	99.7	138.9	158.2	146.3	(7.5)
-- Italy	114.1	110.9	135.8	121.7	138.8	116.1	(16.4)
<b>Select E. Asia (2)</b>	<b>839.6</b>	<b>940.2</b>	<b>1,336.2</b>	<b>1,576.0</b>	<b>1,819.9</b>	<b>1,622.1</b>	<b>(10.9)</b>
-- ASEAN	355.8	410.8	626.3	730.9	880.9	821.5	(6.7)
-- Australia	142.6	132.2	143.8	123.6	131.9	108.9	(17.4)
-- China	43.0	79.2	142.9	271.5	358.0	370.4	3.5
-- Taiwan	151.3	154.0	205.6	241.3	253.2	168.8	(33.3)
-- S. Korea	126.6	141.5	170.4	159.4	162.0	129.3	(20.2)

Million US\$, c.i.f.

1) Total includes listed countries, plus France, Spain, and Benelux.

2) Total includes listed countries, plus Hong Kong and New Zealand. (For the purpose of this table, Australia and New Zealand are included as "East Asian".) ASEAN total excludes Brunei and Vietnam.

Source: Japan Ministry of Finance

An analysis of Japanese parts import data for individual countries reveals that:

- Japan's imports of automotive parts from the United States decreased to \$1.65 billion, or by 3.6 percent, during 1998 compared with 1997. (The annual growth rate for U.S. imports had averaged 9.9 percent for the 1993-97 period.)
- Japan's automotive parts imports from the three major EU countries exporting to Japan grew from \$622 million in 1993 to \$899 million in 1997, realizing an average annual growth rate of almost 10 percent. However, exports from these countries declined 14.7 percent for 1998, largely because of a sharp drop in demand of parts from Germany and Italy.
- Japanese imports of automotive parts from Canada increased from \$51.5 million in 1993 to \$80 million in 1997, realizing an annual growth rate of almost 13 percent. Imports from Canada declined almost 7 percent in 1998.
- Japan's imports of automotive parts from selected East Asian countries (including Australia, China, Taiwan, South Korea, and the ASEAN countries) grew at an average annual rate of almost 20 percent from 1993 to 1997, increasing from \$840 million to \$1.58 billion. However, the trend reversed in 1998, and imports from every one of these countries, except China, dropped in 1998.

## 10. Change in the extent of localization, as part of Japanese vehicle manufacturers'

**globalization efforts, considering data on purchases of parts made in the United States and vehicle production by Japanese transplant vehicle manufacturers in the United States.**

There are three sources of data that can be used in measuring the change in the extent of local parts sourcing by Japanese transplant vehicle manufacturers in the United States: Foreign Trade Zone (FTZ), American Automobile Labeling Act (AALA), and Japan Automobile Manufacturers Association (JAMA). (See Appendix B for explanation of FTZ and AALA data.) Each measures content on a different basis, but over time each should show a similar trend.

AALA data (Table 7) indicate that Japanese transplant levels of U.S./Canadian content have increased significantly from model year 1995 to model year 1998 (last full model year data available), from 47.6 percent to 59.7 percent, despite a slight drop in model year 1997 from model year 1996 figures.

**TABLE 7: Share of AALA Domestic Content Levels by Model Year Percent**

	1995	1996	1997	1998
<b>Toyota</b>	25-60	45-60	45-55	45-60
<b>Nissan</b>	30-45	30-45	40-45	45-55
<b>Honda</b>	45-50	65-70	60-65	70-75
<b>Mitsubishi</b>	46-72	45-71	45-56	47-72
<b>Subaru</b>	35	40	40	55
<b>Suzu</b>	35	40	40	55
<b>Mazda</b>	60-65	60-65	60-65	65
<b>Average*</b>	47.6	54.4	53	59.7

\*Weighted average calculations include averaging both North American-built and foreign-built vehicles of the same carline.

Source: National Highway Traffic Safety Administration

FTZ data (Table 8) indicate that the domestic content of transplant vehicles grew from 57.1 percent in United States fiscal year (FY) 1992 to 65.5 percent in FY97. The table also shows that the value of domestic purchases by the seven Japanese transplant automakers increased by 86.7 percent from FY92 to FY97, from \$9.0 billion to nearly \$16.8 billion.

**TABLE 8: Domestic and Foreign Purchases by Japanese Automakers in Foreign Trade Zones**

Year	Domestic Purchases	Foreign	Total	Domestic Purchases As Share of Total
<b>1992</b>	9,039	6,796	15,835	57.1%
<b>1993</b>	10,356	7,748	18,104	57.2%
<b>1994</b>	12,971	9,534	22,505	57.6%
<b>1995</b>	15,651	10,699	26,350	59.4%
<b>1996</b>	16,575	10,248	26,823	61.8%
<b>1997</b>	16,762	8,956	25,718	65.5%

Million US\$

Data are for U.S. fiscal year (October-September)

Source: Foreign Trade Zones Board Annual Reports

JAMA data, when combined with transplant production statistics (Table 9), reveal that the

value of U.S.-made parts (OE and OES) per transplant-produced vehicle has increased from \$6,343 per vehicle in JFY92 to \$9,097 in JFY97, or by over 43 percent. For JFY97, the U.S. value of parts per transplant vehicle produced increased 11.6 percent compared with JFY96. For the first six months of JFY98, the U.S. parts value per vehicle produced increased by 19 percent when compared with the similar period in 1997.

As mentioned previously, JAMA did not break out OES data from total purchases prior to JFY95. If OES purchases are subtracted from the total purchases by Japanese vehicle manufacturers, the U.S. parts purchases per transplant-produced vehicle were \$7,346 for JFY96 and \$8,192 for JFY97, or an increase of 11.5 percent. For the first six months of JFY98, the parts value per vehicle produced was \$8,962.

**TABLE 9: U.S. Parts Purchases (OE and OES) per Transplant-Produced Vehicle**

YEAR	Transplant Production		U.S. Parts Purchases		Purchases Per Unit	
	Units	% Chg	\$ Billion	% Chg	\$	% Chg
1992	1,760,999	--	11.17	--	\$6,343.0	--
1993	1,868,794	6.21%	12.93	15.76%	\$6,918.9	9.08%
1994	2,236,245	19.66%	16.63	28.62%	\$7,436.6	7.48%
1995	2,289,143	2.37%	17.66	6.19%	\$7,714.7	3.74%
1996	2,337,319	1.69%	19.05	7.87%	\$8,150.4	6.08%
1997	2,309,577	-1.19%	21.01	10.29%	\$9,096.9	11.61%
APR-SEP	1,102,276	--	9.59	--	\$8,700.2	--
APR-SEP	1,116,431	1.28%	11.56	20.50%	\$10,354.4	19.01%

Annual data are for Japanese fiscal year, April 1-March 31.

Parts purchases in \$ billion.

Data include both OE and OES purchases.

Percent changes are from previous year.

Source: Japanese Automobile Manufacturers Association.

**11. Change in purchases of U.S. auto parts by Japanese transplant vehicle manufacturers in the United States.**

The JAMA data (Table 10) show that Japanese automakers operating in the United States purchased \$11.6 billion worth of U.S. automotive parts during April-September JFY98, representing an increase of almost 21 percent compared to the same period in JFY97. OE purchases increased by almost 18 percent and OES rose a substantial 43.8 percent.

**TABLE 10: Japanese Purchases of U.S. Automotive Parts**

	JFY93	JFY94	JFY95	JFY96	JFY97	APR-SEP 1997	APR-SEP 1998	% CHG
<b>Total</b>	<b>15.54</b>	<b>19.86</b>	<b>21.03</b>	<b>22.74</b>	<b>24.96</b>	<b>11.46</b>	<b>13.26</b>	<b>15.7</b>
<b>For U.S. use</b>	<b>12.90</b>	<b>16.63</b>	<b>17.66</b>	<b>19.05</b>	<b>21.01</b>	<b>9.59</b>	<b>11.56</b>	<b>20.9</b>
OE			16.40	17.17	18.92	8.54	10.05	17.7
OES			1.26	1.88	2.09	1.05	1.51	43.8

Billion US\$

Breakout by OE and OES not available until 1995.

Source: Japan Automobile Manufacturers Association

The first year JAMA provided a breakout of purchases for OE and OES was for JFY95 when the data showed OES purchases of \$1.26 billion. These data revealed that of the JFY95 total of \$17.7 billion, \$16.4 billion, or 93 percent was for OE use, while \$1.3 billion, or 7 percent, was for OES use. By comparison, April-September JFY98 data show \$10.1 billion, or 87 percent, was for OE use, while the other 13 percent was used for service replacement parts. For Apr-Sep JFY98, OES purchases for U.S. use increased by 43.8 percent. OES purchases are expected to grow at a faster rate in the future as the U.S. fleet of Japanese transplant-produced vehicles increases and the demand for replacement parts grows.

U.S. imports of parts from Japan increased each year during the 1992-95 time period, then declined during each of the next two years (Table 11). A decline in imports from Japan would be consistent with a greater usage of U.S.-made parts by the Japanese transplants. However, imports increased in 1998 for the first time since 1995.

**TABLE 11: U.S. Imports of Automotive Parts from Japan**

	1992	1993	1994	1995	1996	1997	1998	% CHG
<b>Total</b>	<b>10.82</b>	<b>12.34</b>	<b>14.36</b>	<b>14.66</b>	<b>13.41</b>	<b>11.83</b>	<b>11.86</b>	<b>0.3</b>

Billion US\$

Source: U.S. Census Bureau

## AFTERMARKET PARTS

The Agreement includes two qualitative and two quantitative criteria specifically pertaining to aftermarket parts.

### Qualitative Criteria

**12. The status of deregulation of the definition of disassembling repair, the standards for specialized garages, and of other deregulatory actions within the scope of the Measures regarding the auto parts aftermarket.**

The Japanese Government has implemented each of the specified deregulatory measures included in the Agreement pertaining to the Japanese aftermarket. However, additional progress, which is called for under the Agreement, has been limited. In the Agreement, the Government of Japan committed to continue to review its regulations affecting the auto parts aftermarket, and to seek alternatives for automotive repair and servicing that would improve market access for competitive foreign auto parts suppliers while maintaining safety and environmental standards.

Japanese Government regulations continue to play a major role in channeling consumers to dealerships or other government designated or certified garages that tend to use the vehicle manufacturer's replacement parts. Furthermore, it appears that the development and implementation of regulations remains highly influenced by Japanese trade associations or other domestic groups that may have a vested interest in maintaining the status quo. The Government of Japan should renew its commitment to review and revise regulations in such areas as periodic inspections, disassembly repair regulations, and requirements for mechanics and other resources at regulated garages to increase competition and to enhance progress under this part of the Agreement.

### Disassembling Repair Regulations

MOT removed four specified components -- shock absorbers, struts, power steering systems, and trailer hitches -- from the so-called "critical parts list" shortly after the signing of the Agreement. Four additional components -- stabilizers, torque rods, torsion bar springs, and motorcycle clutches -- were deregulated approximately a year later following further review by MOT. Repairs involving these eight parts can now be made at any garage. According to U.S. industry, however, the four parts deregulated in 1996 do not have a high aftermarket value.

### Requirements for Certified Garages

In addition to reducing the number of parts that are required to be repaired at certified garages, MOT also agreed to liberalize the requirements to become a certified garage. MOT reduced the necessary number of government-certified

mechanics from two to one (from three to two for designated certified garages). MOT also reduced the minimum requirements for floor space and the range of specific tools and equipment items. These changes have made it easier for smaller, non dealer-affiliated, garages to become certified or designated garages.

While all certified garages are permitted to perform repairs on critical parts, only the designated certified garages can conduct the periodic vehicle inspections, sometimes referred to as “*shaken*” inspections. These safety and emissions inspections have a crucial impact on the auto parts aftermarket because an estimated 40 percent of aftermarket sales are made in conjunction with these tests. However, less than one-third of the certified garages in Japan have designated status -- limiting access by a majority of garages to this lucrative segment of the aftermarket.

At the annual consultations in October, 1998, and in subsequent meetings, the United States asked MOT to review further the requirements for equipment, space, or other resources that may unnecessarily add to the cost of becoming a designated garage. MOT has agreed to enter into a dialogue with U.S. government and industry officials on ways that additional competition can be introduced into this sector.

### Special Garages

In February 1997, MOT established two new categories of garages -- specialized certified garages and special designated garages. Unlike regular designated garages, the special designated garages are not required to perform inspections onsite. These new garages can perform inspections at another designated garage, or form cooperatives with other special designated garages to jointly operate inspection facilities. Specialized certified garages specialize in the repair of specific components and do not have to be able to repair all vehicle components. They only are required to have floor space and tools and equipment commensurate with the repairs in which they choose to specialize. These changes make it easier for some smaller independent garages to perform the work of fully designated or certified garages.

### Modification Inspections

Under the Agreement, MOT eliminated the need for costly inspections and taxes for most exterior aftermarket modifications of autos and light trucks. This change gives consumers the option of adding such items as ski racks and trailer hitches after purchasing a vehicle, rather than buying them as original equipment items from the vehicle manufacturer or dealer. While statistics on sales of most specific aftermarket components are unavailable, U.S. industry has reported that this change has opened a significant new market for them.

### Disassembling Repair Inspections

In May 1998, MOT eliminated the requirement for inspections of do-it-yourself repairs involving critical parts. This deregulatory action makes it easier for car owners to work on their own vehicles, but this segment of the aftermarket is expected to remain extremely small in Japan for the foreseeable future.

Aside from the elimination of this inspection requirement for do-it-yourself repairs, and the deregulation of the four additional critical parts in 1996, MOT has not undertaken any deregulatory actions in the aftermarket beyond those originally specified in the Agreement. Furthermore, neither of these actions is expected to have a noticeable market impact. The U.S. Government agrees with U.S. industry that more fundamental changes -- most importantly, the elimination of most, if not all, components from the disassembly repair regulations and further reform of the periodic vehicle inspection (*shaken*) and repair requirements -- are necessary to introduce meaningful competition into the Japanese auto parts aftermarket.

#### **13. The Government of Japan's responsiveness to complaints and requests by interested persons regarding the clarification or deregulation of the definition of disassembling repair or modification inspections.**

In December 1996, the four major U.S. automotive parts trade associations (Automotive Parts and Accessories Association, Automotive Service Industry Association, Motor and Equipment Manufacturers Association, and Specialty Equipment Market Association) petitioned the Ministry of Transport to remove brake systems from the disassembly repair regulations. This request was supported by a letter from Commerce Secretary Daley and U.S. Trade Representative Barshefsky, which cited the strong case for removing these parts without adversely affecting safety. The petition was rejected by MOT in February 1997, and a subsequent request for reconsideration filed in March was also denied. The U.S. Government continues to believe that these regulations limit competition in the aftermarket, and are redundant since the safety of repair work on brake systems and other critical parts can be ensured through the existing system of certifying mechanics.

In September 1997, the four parts trade associations again petitioned MOT for reconsideration of their earlier request and for further deregulatory actions and assistance in the aftermarket. Included in this petition was a request that the requirements for certified mechanics working in the newly established specialized certified garages be revised to correspond to the type of repairs each garage performed. Under this proposal, a mechanic would be tested and certified in any one or a combination of the MOT-regulated motor vehicle safety systems that the mechanic's garage specialized in, rather than all seven systems currently required. MOT held hearings on mechanics regulations in February 1998, and U.S. industry presented testimony in support of this proposal.

In response to this request, MOT has decided to create one new category of certified mechanic -- the Class 2 Chassis mechanic. This new class of mechanic would be trained, tested, and certified to work on all vehicle systems except engines. This change should make it easier and less expensive for the newly-created specialized garages, that do not perform repairs on engines, to employ the required number of MOT-certified mechanics. Since it appears that most of the specialized garages certified since 1995 are interested in performing most non-engine repairs, this new category of mechanic conforms closely to current market requirements. However, MOT officials have stated that they will reassess the need for further subcategories of mechanics as the aftermarket evolves. For example, if large numbers of garages are established that specialize in only one vehicle system, such as brakes, MOT should consider creating a class of mechanic that only needed to be trained in brake-related repairs.

### **Quantitative criteria**

#### **14. Change in the value and share of foreign parts purchased in Japan for aftermarket use.**

Available data on Japanese auto manufacturers purchases of foreign aftermarket parts are a subset of the U.S. parts purchasing data provided by JAMA on a semi-annual basis. These data are available only for 1995-97 and the first six months of 1998.

JAMA data reveal OES parts purchases for use in the United States rose from \$1.26 billion in 1995 to \$2.09 billion for 1997, and to \$1.51 billion for the first half of JFY98. While OES purchases by Japanese auto companies for use in Japan increased by a noteworthy 13 percent for JFY97 compared with the same period in JFY96, the overall value of the purchases was still quite small, valued at only \$178 million. For the first six months of JFY98, Japanese purchases of U.S. auto parts decreased 7 percent when compared with the same period in JFY97, dropping from \$76.9 million to \$71.8 million.

#### **15. Change in the number of specialized certified and designated garages.**

As of February 28, 1999, MOT had approved the establishment of 638 specialized certified garages. Since the last monitoring report of August, 1998, MOT has approved 26 applications for new specialized certified garages, each of which for a different garage location rather than for an entire chain of garages such as Autobacs or Yellow Hat. MOT reports that the processing time for an application averages 30 days and that no applications have been rejected since the new categories of garages were established.

The number of special designated garages has increased from 125 as of the end of July, 1998 to 169 as of year end 1998. However, we have learned from a Japanese parts association that special designated garages are most commonly being used as an intermediate step for larger certified garages to gain full designated garage status.



This new category is not being used as originally planned--two or more small garages establishing and jointly using a newly designated garage.

## ECONOMIC CONDITIONS

### 16. Market conditions, including exchange rates.

#### The Japanese Economy

Japan's economy is in its worst post-war recession. GDP contracted by 2.8 percent for 1998 and the IMF estimates a further contraction of 1.4 percent for 1999. Unemployment was a record 4.8 percent of the labor force in March and is expected to rise. Over the reporting period of this monitoring report, the yen/dollar exchange rate fluctuated between ¥ 115 and ¥ 135.

The Japanese government has responded with significant policy steps. Fiscal stimulus has been stepped up in FY98 supplemental budgets, the FY99 initial budget, and tax cuts, and is expected to contribute 2.2 percent of stimulus to GDP in FY98 and 3.2 percent in FY99. Bank recapitalization with ¥7.3 trillion in public funds was carried out on March 31. Prime Minister Obuchi is heading several groups he has set up to tackle structural reform issues, including the Economic Strategy Council, whose February 1999 report called for fundamental structural reform in the private and public sectors, and an industry-government advisory council to discuss supply-side strategies to restore competitiveness to manufacturing. On May 3, 1999, Prime Minister Obuchi joined President Clinton in announcing new bilateral agreements which will help to promote structural reform, including joint reports on bilateral deregulation commitments and improving Japan's investment climate.

The restoration of economic growth in Japan is important to the United States, Asia, and to the rest of the world. We believe that Japan must keep up the momentum in using all available tools to help restore domestic demand-led growth, and keep working to restructure its banking system. In addition, Japan must make progress on structural reform and on opening its markets.

#### Automotive Markets

The U.S. motor vehicle and parts industry in 1998 continued to generate healthy profits from strong domestic sales and expanding exports. To maintain its growth, the industry also continues to make substantial investments in new and existing manufacturing plants and equipment, and to develop higher quality and more competitive vehicles and parts.

The United States overtook Japan as the world's largest motor vehicle producer in 1994. In 1998, total U.S. vehicle production reached 12 million units; Japanese production was 10 million units. Commercial and light vehicle production in the United States totaled 12.3 million units, 11.6 million units, 11.8 million units, and 12.1 million units in 1994, 1995, 1996, and 1997 respectively. Production in Japan during the same three years was 10.6 million units, 9.8 million units, 10.3 million units, and 10.9 million units. U.S. production of automotive parts is estimated to have reached a value of \$157 billion in 1998. Annual output has been growing at a real average annual rate of 8 percent since 1992, while Japan and the EU are seeing relatively

slower growth in these sectors.

In 1998, U.S. road motor vehicle exports to the world fell 7 percent over 1997 to 1.61 million vehicles, according to U.S. Government data. Their value dropped 4 percent to \$24.5 billion. U.S. shipments to Japan fell to 63,300 units, a decline of 34 percent, while their value dropped 28 percent, falling to \$1.165 billion. During the same period Japanese exports to the world decreased 0.5 percent, with a 3.3 percent increase to the United States, compared to the previous year, according to Japanese data. Official U.S. data indicates that road motor vehicle imports from Japan grew by 5 percent to 1.5 million units. Their value increased 7 percent to \$25.3 billion.

In 1998, U.S. data shows that U.S. automotive parts exports to the world totaled \$46.8 billion, up 0.3 percent from 1997. U.S. data indicates that exports to Japan fell by almost 8 percent to \$2.1 billion. During the same period, U.S. imports from the world grew 7 percent compared to the previous year, reaching a total of \$54.3 billion. Imports from Japan increased 0.2 percent, reaching \$11.9 billion.

### The United States Market

Sales in the United States of passenger vehicles and light trucks in 1998 grew nearly 3 percent for the year, totaling 15.5 million units. The American brands, including American-brand imports, lost share, dropping 1.2 points of share to a level of 70.1 percent. Japanese brands, including both U.S.-produced and imported products added three-tenths of a point for a 23.9 percent share.

In the first two months of 1999, the market grew 10 percent to reach 2.4 million units, surprising the industry, which expected sales for the entire year to remain stable or even to decline slightly. Many industry analysts now expect the U.S. market to equal or exceed last year's, perhaps even reaching 16 million units, which would equal the 1986 all-time record. In the first two months of this year, the American brands lost one point of overall market share, compared with the same previous period, falling to 70.2 percent. Their share of the light truck segment dropped 2.1 points, falling to 82.8 percent, while their share of the passenger car segments continued to decline, falling by 1 point to 58.3 percent. The Japanese brands also lost share in the passenger car segments, dropping two-tenths of a point to 30.4 percent, while their share of light trucks grew by 1.7 points to 15.6 percent of the segment. Their overall share gained a half point, reaching 23.2 percent.

Until 1997, sales of imported cars and light trucks (excluding vehicles produced in Mexico and Canada) had declined steadily from their 1986 peak – when they accounted for 25.9 percent of the overall market, on sales of 4.2 million units. In 1997, however, import sales increased 13 percent, reaching 1.9 million units, 12.8 percent of the total market. The weakening of the yen spurred sales of Japanese imports, which increased 11 percent to 1.3 million units, generating an 8.3 percent share. In 1998, sales of all imports grew by 5 percent to 2.024 million units. Sales of Korean imports increased 3 percent to 173,000 units, while German imports increased 26 percent,

reaching 344,000 units. Sales of Japanese imports grew 3 percent, reaching 1.292 million units.

During 1998, car and light truck production in the United States slipped 1 percent compared with 1997, dropping to 11.635 million units. The U.S. Big Three accounted for 78 percent of the total, while Japanese-affiliated plants supplied 20.5 percent. The balance was produced by German-affiliated firms. Light vehicle production in the first two months of 1999 totaled nearly 2 million units – up 4.5 percent. The Big Three share accounting for 80.1 percent, up 1.9 points from the same period in the previous year. After increasing rapidly every year since Japan began production in the United States in 1982, local assembly by the Japanese-affiliated plants grew by just 16,000 units in 1996 to 2.3 million vehicles and fell by 4,000 units in 1997. Production recovered in 1998, growing 3 percent and reaching 2.382 million vehicle. However, in the first two months of 1999, production dropped 5.2 percent, compared with the same period in the previous year, to a total of 374,000 units. Newly installed and newly reallocated capacity could produce significant gains for the balance of the year.

The U.S. automotive parts industry produced \$148 billion worth of parts in 1996, and is estimated to have reached \$153 billion in 1997 and \$157 billion in 1998. Since the industry's cyclical trough in 1991, output has grown at an 8-percent average annual rate. 1997 North American sales by the top 50 U.S. OE automotive parts suppliers totaled an estimated \$119 billion, down 1 percent from 1996 figures.

### Market Conditions in Japan

The downturn in Japan's economy is reflected in its motor vehicle market. In 1997 motor vehicle sales in Japan totaled 6.7 million units, a decline of 5 percent compared to 1996. The decline in motor vehicle sales continued in 1998; sales for the year were 13 percent lower than sales in 1997.

Japanese world motor vehicle exports for 1998 declined 0.5 percent over 1997 levels to 4.5 million units. However, exports from Japan to the United States rose 5 percent in 1998 over 1997 levels. Until 1997, exports of motor vehicles from Japan had declined every year since peaking at 6.7 million units in 1985. 1998 marks the second straight year of increased exports of Japanese motor vehicles to the United States. The export surge has supported Japan's motor vehicle production during this weak period of domestic demand. Production during 1997 reached 11 million units, the highest level since 1993, but declined 8.4 percent in 1998 to 10 million units.

## OTHER MEASURES

### 17. The implementation of all other measures of the Measures.

The Governments of Japan and the United States have implemented the other measures of the Agreement to which they committed. These measures include:

- Commitments by the Japanese Government to provide support for the promotion of imported autos and auto parts in Japan and to ensure equal access to Japanese vehicle owner registration information;
- Commitments by the Japanese Government to reach a mutually satisfactory agreement on standards and certification issues; and
- Commitments by the U.S. Government to support U.S. autos and auto parts makers' efforts to expand exports and enhance their competitiveness.

#### Measures to be Taken by the Government of Japan

##### Foreign Vehicle Access Plan

During the annual government-to-government consultations on the Agreement in October, 1997 the U.S. Government expressed concerns that auto dealers in Japan still did not believe that they were free to sell competing motor vehicles, despite notifications to that effect sent out by the Japanese Government after the Agreement was signed. In response to U.S. Government concerns, Japanese Government officials notified the Japanese Automobile Dealers Association (JADA) and the Japanese Automobile Manufacturers Association (JAMA) in person on four separate occasions in late 1997 that dealers are free to handle vehicles of competing automakers.

##### Access to Vehicle Registration Information

The Japanese Government has fully implemented its commitments to provide equal access to vehicle owner registration information, according to U.S. industry. However, some companies have complained about the high cost of obtaining this information.

##### Japanese Government Support for the Promotion of Imported Autos and Auto Parts

The Agreement provides for Japanese Government support for the promotion of imported autos and auto parts into Japan through the Japan External Trade Organization (JETRO), the Japan Development Bank (JDB), and other Japanese Government organizations. Recent JETRO-sponsored initiatives to promote imported vehicle sales have included: imported car shows in Osaka (November 1997), Nagoya (January 1998), Fukuoka (February 1998) and Hokkaido (March 1998), and test drive demonstrations in major metropolitan areas. JETRO also continues to maintain permanent exhibition showrooms for imported vehicles in Tokyo, Osaka, and Nagoya. The U.S. Government is working with U.S. industry in an attempt to enhance the usefulness of these programs to U.S. manufacturers and Japanese consumers.

The Japanese Government has also taken a number of steps in keeping with its commitments under the Agreement to promote expansion of purchases of foreign parts by Japanese firms in Japan and by their transplants in the United States. In February 1997, JETRO joined with the Department of Commerce, the Automotive Parts and Accessories Association (APAA), and Georgia State University to present a conference in Atlanta, Georgia, geared to help U.S. parts suppliers get the most out of opportunities created by the 1995 Agreement. In June 1997, JETRO funded a joint sales promotion mission for members of the Motor and Equipment Manufacturers Association (MEMA) and Speciality Equipment Market Association (SEMA) to Japan. JETRO also funded three auto parts and accessories buying missions for Japanese companies to the U.S. in 1997. In June 1998, JETRO supported the 1998 USJAC (U.S., Japan, and Canada) Auto Conference in Dearborn, Michigan, which provided an opportunity for U.S. second-tier parts suppliers to meet with Japanese first-tier parts suppliers. U.S. industry has found this assistance to be highly valuable and has requested that it continue. In a September 12, 1997 petition to Japan's Ministry of Transport, U.S. parts associations made specific recommendations to the Japanese Government for assistance in helping U.S. auto parts suppliers in various Japanese market research and industry-wide marketing efforts in Japan.

In addition to aforementioned programs, the JDB and the Japan Export Import (JEXIM) Bank offer financing to U.S. and other foreign automakers and auto parts suppliers. While some U.S. companies have made use of these programs, others have indicated that Japan's low interest rates make JDB and JEXIM Bank financing of little benefit. U.S. companies have proposed that these institutions offer similar financing packages for their dealer candidates, which are having difficulty obtaining commercial financing in the current economic environment. U.S. industry has also proposed that banks more flexibly accommodate changes in customer requirements such as re-financing.

#### Regulatory Reform by the Japanese Government

##### *Standards and Certification Issues*

As stated in previous monitoring reports, all 23 standards and certification issues were resolved to the mutual satisfaction of both the U.S. and Japanese Governments within the time frame stated in the Agreement. Since that time, U.S. industry has continued to discuss standards and certification issues with Japan's Ministry of Transport.

#### Measures to be Taken by the Government of the United States

Since the signing of the Agreement, the U.S. Government has developed trade promotion programs in an effort to vigorously implement the Agreement, including industry-organized trade missions to Japan and reverse trade missions from Japan to the United States. For example, in January 1999, the Department of Commerce jointly led an automotive parts trade mission to Japan with the Specialty Equipment Market Association. U.S. officials also continue to inform U.S. suppliers of opportunities provided by the Agreement at U.S. automotive industry events, such as the

Automotive Aftermarket Industry Week (AAIW), the largest automotive parts show in the United States. At the 1998 show, the U.S. Government and the four AAIW sponsors – Automotive Parts and Accessories Association, Automotive Service Industry Association, Motor and Equipment Manufacturers Association, and Specialty Equipment Market Association – organized a “break-out” session in which U.S. parts suppliers met with Nissan representatives to discuss Nissan’s Pitworks operation, which is their retail parts aftermarket network.

The Agreement also calls for the U.S. Government to provide support to U.S. auto parts suppliers and related organizations for their promotion of U.S. auto parts sales to activities to Japanese automakers in the United States, as well as in Japan. Toward this end, the Department of Commerce--with the help of the U.S. Automotive Parts Advisory Committee (APAC), which is the federal advisory committee established to advise the Department of Commerce on U.S.-Japan automotive parts issues --developed two programs: the “One Stop Shop” service and the Automotive Parts Industry Outreach Program.

The “One Stop Shop” service provides U.S. industry with a single contact point -- the Department of Commerce’s Auto Parts & Suppliers Division -- to assist U.S. automotive companies in their efforts to develop business relations with Japanese automotive companies. This Division has provided U.S. suppliers business counseling on selling to the Japanese automotive industry and a list of appropriate purchasing contacts for the Japanese automakers and parts manufacturers. A detailed “One Stop Shop Action Plan” has been developed specifically to designate on-going industry support activities. This Plan has been modified as conditions within the industry and program priorities warrant.

The Automotive Parts Industry Outreach Program provides services designed to create ongoing, informal fora where channels of communication between U.S. and Japanese companies can be established. Initially, four Department of Commerce Export Assistance Centers (EACs) with significant automotive clientele hosted seminars for U.S. suppliers on the benefits and opportunities afforded to them as a result of the Agreement.

As a follow-up to these seminars, smaller, informal meetings between 15-20 U.S. auto parts companies and U.S. subsidiaries of Japanese companies (both vehicle assemblers and parts manufacturers) have been held in cities such as Detroit, Atlanta, Pontiac (MI), Chicago, and Ontario (CA). These meetings are designed for participants to engage in an informal dialogue on such industry topics as technology, engineering and sourcing issues, production systems, and quality improvements. In May, a full-day program featuring Toyota was held as part of the World Trade Conference and Expo ‘99 in Ontario, California. The program was developed in conjunction with the Ontario Export Assistance Center and SEMA. Other presentations featured the Japan External Trade Organization (JETRO), market research experts, and sessions featuring SEMA member companies who were experienced exporters. Plans are currently being made for future events in the following locations: Bowling Green, Kentucky, in

cooperation with Western Kentucky University for November 1999; Indianapolis for the Fall 1999, in conjunction with the Indianapolis Export Assistance Center; and late 1999 in Pontiac, Michigan, in cooperation with the Pontiac Export Assistance Center. The meetings have been beneficial for U.S. suppliers interested in learning about Japanese companies' expectations of their suppliers. Feedback from both U.S. and Japanese companies regarding the meetings has been extremely positive.

## **APPENDIX A: U.S. Exports of New Passenger Vehicles and Trucks to Japan**



<b>New Vehicles</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>97/98 Jan-May %Chg.</b>
<b>Unit Exports to Japan</b>								
<b>Pass. Vehicles &amp; Lt. Trucks</b>	42,795	58,758	105,155	139,016	123,538	79,621	52,622	(34.2)
<b>Med/ Heavy Trucks</b>	39	109	131	182	96	79	43	(45.6)
<b>Total</b>	42,834	58,867	105,286	139,198	123,634	79,700	52,665	(33.9)
<b>Value of Exports to Japan (US\$ million)</b>								
<b>Pass. Vehicles &amp; Lt. Trucks</b>	730.0	1,021	1,820	2,716	2,319	1,418	1,058	(25.4)
<b>Med/ Heavy Trucks</b>	0.6	1.9	2.4	4.0	4.0	1.8	0.5	(67.8)
<b>Total</b>	730.6	1,023	1,822	2,720	2,323	1,420	1,059	(25.4)

Source: U.S. Census Bureau, using Office of Automotive Affairs' product dictionary

## **APPENDIX B: Explanation of Data Sources**

### **Japanese Automobile Manufacturers Association (JAMA) Data**

In 1987, the U.S. Government and Japanese Government signed the Transportation Machinery Market-Oriented, Sector-Selective (MOSS) Agreement, the main goal of which was to substantially increase U.S. sales of automotive parts to Japanese automakers. As part of this accord, the Japanese agreed to voluntarily submit to the Department of Commerce semi-annually the value of U.S. parts purchased by Japanese automakers. The data includes totals for purchases for use in the United States and in Japan and is broken out into six major parts categories.

In a side letter to the Framework Agreement, MITI renewed its commitment to supply the purchasing data and agreed to further break the data out into categories for OE and OES use. The OES data include only those aftermarket parts purchased by dealers in Japan, and do not include parts purchased for the independent aftermarket in Japan.

### **Foreign Trade Zone (FTZ) Data**

FTZs are areas under U.S. Customs supervision that are considered outside the customs territory of the United States. (These zones are located in the United States. For example, the Toyota plant in Kentucky is an FTZ.) Under FTZ procedures, the usual customs entry procedure and payment of duties are not required upon admission of foreign imports into the zones. Every U.S.-based passenger vehicle plant — including those operated by the Big Three, Japanese, and German transplants — is located in an FTZ, which affords them considerable savings in duties.

Under the FTZ system, automakers can import parts into zones without paying the average 2.8 percent U.S. duty, then ship completed passenger vehicles out of the FTZ, paying only the lower 2.5 percent duty assessed on passenger vehicles. (Since the United States assesses a 25 percent duty on pickups trucks, there is no incentive for manufacturers of these vehicles to produce in FTZs.) If the vehicle is exported, no duty is paid at all.

FTZ regulations require that automakers report the value of parts shipped into the FTZ from U.S. locations ("domestic status inputs"), as well as the value of parts imported from foreign countries ("foreign status inputs") annually to Commerce Department's FTZ Office.

Thus, FTZ data are useful in monitoring trends in two areas of the U.S.-Japan Automotive Framework Agreement:

1. Japanese automakers' reports on domestic status inputs (adjusted) can be used as an indicator of Japanese transplant purchases of U.S. parts, and
2. Japanese automakers' reports on domestic status inputs, combined with foreign

status inputs, can be used to crudely estimate the percentage of domestic content of transplant production.

However, as there are several systematic anomalies in the FTZ data that tend to overstate the value of domestic status inputs, as they include parts imported from Canada under the APTA/CFTA, as well as parts imported into the United States under normal customs procedures and then shipped to the FTZ. Thus, these data should be used only to assess trends in domestic purchasing and content.

### **American Automobile Labeling Act (AALA) Data**

The AALA requires that all passenger motor vehicles sold in the United States be affixed with a label stating the percentage of U.S. and Canadian parts content, the place of final assembly, and the origin of the engine and transmission. AALA content percentages are based on the dollar value of parts contained in a vehicle. Costs and profits at the final assembly point and beyond are not included. Under the law, the content percentages for models assembled both inside the United States and Canada and outside the United States and Canada (e.g. Honda Civic, Toyota Camry, etc.) are averaged at the beginning of the model year based on company estimates of sales in the U.S. of the models assembled at both locations. AALA data have been collected since the 1995 model year, thus 1995 is used as a benchmark year.